

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 USNATO 3915

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TAGS: MCAP, NATO

SUBJECT: DPC MEETING , 16 JUL 74, ITEM II-NICS PRODUCTION-
SHARING AND IMPLEMENTATION OF THE TARE PROJECT

REF: DPC/D(74)16

BEGIN SUMMARY: DPC HAD USEFUL DISCUSSION OF PRODUCTION SHARING
AND GREEK/TURK PROBLEMS WITH SEQUENCE OF IMPLEMENTATION OF
THE TARE PROJECT. COMMITTEE ASSIGNED FIRST PROBLEM TO NICSMA
FOR STUDY AND SECOND PROBLEM TO GROUP OF ALL CONCERNED FOR
RECOMMENDATIONS.

DPC WILL CONSIDER BOTH ISSUES AT EXTRAORDINARY MEETING ON
SATURDAY, 20 JUL. ACTION REQUESTED: WASHINGTON APPROVAL OR
COMMENTS BY 19 JUL ON MISSION RECOMMENDATIONS PARA 8 BELOW
CONCERNING PRODUCTION SHARING. END SUMMARY.

1. SYGEN INTRODUCED SUBJECT BY SAYING THAT NICSMA HAD BEEN
SET UP TO EXPEDITE THE IMPLEMENTATION OF THE NICS PROGRAM.
THE DPC HAD HEARD FROM MR. BUCHS (DG/NICSMA) THAT TWO PROBLEMS
WERE DELAYING ACTION ON THE CALL FOR BIDS FOR THE TARE PROJECT.
ONE WAS FINANCIAL IN WHICH THE US DISAGREED WITH HERE ALLIES
ON THE NEED FOR MANDATORY PRODUCTION SHARING AND BIDDING DOCUMENTS;
AND THE SECOND WAS OF AN OPERATIONAL NATURE WHEREIN GREEK AND
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TURKISH AUTHORITIES OBJECTED TO SHAPE'S ORDER OF PRIORITY IN
THE INSTALLATION OF TARES. HE SUGGESTED THAT THE DPC DEAL WITH
THE PROBLEMS SEPARATELY

2. DE STAERCKE (BELGIUM) INDICATED PSYCHOLOGICAL PROBLEM CHEREIN US WAS ISOLATED FROM HER ALLIES BUT WHERE THE US MIGHT WELL BE ON THE RIGHT TRACK. ALL AGREED THAT A PRODUCTION IMBALANCE MUST BE AVOIDED BUT THE US CONTENDED THAT THERE WAS NO SUCH IMBALANCE AND PROBABLY NONE WOULD OCCUR. HE SUGGESTED THAT SHOULD BE READY WITH A SOLUTION. SINCE NATO WAS NOW HEADED TOWARD THE FIRST PROBLEM OF SELECTION OF CONTRACTORS IN THE NICS PROGRAM, HE WANTED TO KNOW WHAT THE US WOULD SUGGEST AS A REMEDY SHOULD SUCH A IMBALANCE BE REVEALED DURING THE SELECTION PROCESS.

3. RUMSFELD (US) MADE FOLLOWING STATEMENT.

NONE OF MY AUTHORITIES EXPECTED IN 1971 AND 1972 THAT WE WOULD TODAY BE THE CHAMPIONS OF THE NATO PRODUCTION SHARING AGREEMENT. AS YOU REMEMBER, OUR ALLIES WERE INSISTENT ON SUCH AN AGREEMENT, AND IT WAS WITH GREAT DIFFICULTY THAT WE FINALLY ACCEPTED IT. WE BELIEVED AT THAT TIME, AS WE DO NOW, THAT ANY RESTRICTION IN THE COMPETITIVE BIDDING PROCESS COULD ONLY LEAD TO HIGHER COSTS, LONGER DELAYS, AND INFERIOR TECHNICAL PERFORMANCE OF THE URGENTLY REQUIRED NICS PROGRAM. FOR THAT REASON, WE MADE OUR ACCESSION TO THE ALLIES' PROPOSAL CONDITIONAL ON INCLUSION OF SAFEGUARDS DESIGNED TO PRESERVE AS FAR AS POSSIBLE THE ADVANTAGES OF UNRESTRICTED COMPETITIVE BIDDING, WHILE SATISFYING THOSE NATIONS WHICH INSISTED ON GUARANTEED PRODUCTION SHARES.

THE PRODUCTION SHARING PROCEDURES WHICH EVOLVED IN THE INFRASTRUCTURE PROGRAM AND WERE APPROVED IN MAY 1973, RECOGNIZED THE US DESIRE TO PRESERVE THE ADVANTAGES OF COMPETITIVE BIDDING BY SPECIFYING THAT SUCH WOULD BE THE NORMAL PROCUREMENT PROCEDURE FOR NICS PROJECTS. THE COMMITTEE WAS TO TAKE ACTION TO RESTRICT THE COMPETITIVE PROCESS AS DEAN SUGGESTS ONLY WHEN CONFRONTED WITH A DANGEROUS TREND TOWARD IMBALANCE IN PRODUCTION SHARES. IN THE US POSITION PAPER OF 8 JULY (REFERRED TO IN THE DOCUMENT WE ARE DISCUSSING TODAY), WE HAVE ASSEMBLED NICSMA AND INTERNATIONAL STAFF FIGURES REPRESENTING CONFIDENTIAL

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WHAT WE BELIEVE TO BE A FAIR PRESENTATION OF THE CURRENT PRODUCTION SHARING SITUATION WITHIN NICS. OUR CALCULATIONS INCLUDE NOT ONLY CONTRACTS ENTERED INTO TO DATE, BUT ALSO COMMON ADMINISTRATION CHARGES, AND CIVIL WORK, LOCAL COSTS, AND INSTALLATIONS AND TESTS REQUIRED TO BE DONE WITHIN THE VARIOUS HOST NATIONS. ANALYSIS OF THOSE FIGURES SHOWS THAT WE NOW HAVE A ROUGH BALANCE OF EXPENDITURES IN EACH OF THE PARTICIPATING COUNTRIES. IT ALSO SHOWS THAT WITH SOME 55 MILLION IAUS YET TO GO TO REACH THE 100 MILLION IAU LEVEL, AT WHICH A ROUGH BALANCE IS TO BE ESTABLISHED, THE US STILL HAS AN ENTITLEMENT TO OVER 15 MILLION IAUS, AND OUR ALLIES HAVE AN ENTITLEMENT TO ABOUT 20 MILLION IAUS. IN ADDITION, OF COURSE, THERE REMAINS OVER 19 MILLION IAUS OF THE FREE 20 PERCENT WHICH HAS BEEN SET UP AS A CUSHION

TO ALLOW A ROUGH BALANCE TO BE ACHIEVED. WE CANNOT, THEREFORE, AGREE THAT THERE EXISTS NOW ANY DANGEROUS IMBALANCE. THIS IS IN CONFORMITY WITH NICSMA FINDINGS OF LAST FEBRUARY.

FURTHER ANALYSIS SHOWS THAT IF THE 19 MILLION IAUS OF ELECTRONICS COSTS ASSOCIATED WITH THE TARE AND IVSN PROJECTS WERE TO GO EITHER TO THE US OR TO OUR ALLIES, THE RESULTING IMBALANCE COULD NOT BE CONSIDERED TO BE DANGEROUS IN THAT ADEQUATE FUNDS WOULD REMAIN IN THE FREE 20 PERCENT TO PROVIDE THE POSSIBILITY FOR A ROUGH BALANCE TO BE STRUCK AT THE 100 MI MILLION IAU LEVEL. FOR THAT REASON, WE CANNOT AGREE TO THE APPLICATION OF ANY MANDATORY PRODUCTIONSHARING CLAUSE IN THE TARE OR IVSN CONTRACTS AND, FAILING THAT AGREEMENT, THE NORMAL RULE CALLS FOR UNRESTRICTED COMPETITION.

WE WOULD SUGGEST, MR. CHAIRMAN, THAT THE PROPER PROCEDURE WOULD BE TO FOLLOW THE ESTABLISHED RULES AND ISSUE THE CALLS FOR BIDS FOR TARE AND IVSN UNDER UNRESTRICTED INTERNATIONAL COMPETITIVE BIDDING. I UNDERSTAND THAT THIS WOULD ALLOW US TO REASSESS THE PRODUCTION SHARING BALANCE BEFORE THE NEXT LARGE CONTRACT MUST BE ADVERTISED. SHOULD THE WORST FEARS OF OUR ALLIES PROVE TO BE WELL FOUNDED, THAT WILL BE ADEQUATE TIME TO MAKE THE REQUIRED ADJUSTMENTS.

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C O N F I D E N T I A L SECTION 2 OF 2 USNATO 3915

RUMSFELD NOTED IN ANSWER TO DE STAERCKE'S QUESTION, THAT THE US MISSION INTENDED TO MONITOR US CONTRACTORS' EFFORTS AT PRODUCTION SHARING AND TO WORK WITH THEM IN THEIR ACTIONS TO DIVIDE THE WORK, EITHER THROUGH SUBCONTRACTING OR THROUGH MULTINATIONAL CORPORATE GROUPINGS. HE BELIEVED IT WAS EACH NATION'S OWN RESPONSIBILITY TO MAKE SURE THAT ITS CONTRACTORS DID NOT USE UP ALL OF THE COUNTRY'S ENTITLEMENTS AND THUS RENDER OTHERS OF ITS CONTRACTORS INELIGIBLE FOR BIDDING ON

LATER NICS PROJECTS.

4. DE STAERCKE REPLIED THAT THE DIFFICULTY WAS TO RECOGNIZE AN IMPENDING IMBALANCE AND TO BE READY WITH A REMEDY. HE AGREED WITH RUMSFELD THAT ICB (INTERNATIONAL COMPETITIVE BIDDING) WAS THE BEST PROCUREMENT METHODS, HOWEVER, IF ICB RESULTED IN AN IMBALANCE, CORRECTIVE ACTION SHOULD BE AUTOMATIC WITH THE POSSIBILITY OF VETO BY ANY NATION. LUNS SUGGESTED THAT A COMPROMISE SHOULD BE SOUGHT.

5. RUMSFELD STATED THAT THERE DID NOT SEEM TO BE A REAL PROBLEM SINCE THE US HAD ALREADY COMPROMISED ITS POSITION FAVORING ICB AND A AGREEMENT HAD BEEN REACHED THAT THERE WOULD NOT BE AN IMBALANCE OF PRODUCTION IN THE NICS PROGRAM. THERE IS NO IMBALANCE AT THE MOMENT AND THE US DOES NOT BELIEVE THAT ONE WILL OCCUR. IF, HOWEVER, AN IMBALANCE SHOULD OCCUR, WE HAVE ALREADY
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AGREED TO FIX IT. THE US WAS WILLING TO DISCUSS THE TECHNIQUES TO BE USED IF NECESSARY BUT THOSE TECHNIQUES WERE TO BE LIMITED TO SUBCONTRACTING OR DIRECTED PROCUREMENT AND DID NOT APPEAR TO WARRANT A GREAT DEAL OF STUDY.

6. BUCHS INDICATED THAT PRODUCTION SHARING WAS AN INFRASTRUCTURE COMMITTEE RESPONSIBILITY. NICSMA AGREED THAT ICB WAS THE EASIEST PROCUREMENT METHOD AND WOULD RESULT IN THE BEST AND CHEAPEST SOLUTIONS. THE INFRASTRUCTURE COMMITTEE HAD, HOWEVER, MADE HIM RESPONSIBLE TO THE COMMITTEE FOR THE ULTIMATE RESULTS UNDER THE PRODUCTION SHARING AGREEMENT. HE AGREED WITH THE US FIGURES AS TO THE CURRENT BALANCE BUT STATED THAT HIS OWN RECOMMENDATION FOR MANDATORY PRODUCTION SHARING WAS BASED ON HIS ANALYSIS THAT FOR INSTANCE IN THE TARE PROJECT WITH 12 US CONTRACTORS OUT OF A TOTAL OF 20 THERE WAS A STATISTICAL LIKELIHOOD THAT A US CONTRACTOR WOULD WIN THE BID. THIS WOULD NOT BE A PROBLEM IF NATO WERE NT (TELEGRAPH AUTOMATIC RELAY EQUIPMENT, INTERIM VOICE SWITCH NETWORK, NOW PREPARED TO ADVERTISE FOR THREE CONTRACTS SATCOM GROUND TERMINAL) (TARE, IVSN, SGT). WIN UNDER THESE CONDITIONS IF THE US SHOULD WIN ALL THREE CONTRACTS, WHICH HE BELIEVED TO BE LIKELY, A SITUATION COULD ARISE WHEREIN THE US HAD REACHED ITS MINIMUM PRODUCTION QUOTA AND OTHERS WOULD STILL BE AT ONLY 25 PERCENT OF THEIR QUOTAS. HE ALSO SAID THAT WHEREAS FUNDS WOULD REMAIN IN THE PROGRAM AFTER THE FIRST THREE CONTRACTS TO CORRECT THE IMBALANCE, HE BELIEVED THAT LATER CONTRACTS WOULD BE CONDITIONED BY THE EQUIPMENT PROCURED UNDER THE FIRST THREE CONTRACTS. HE NOTED, FOR INSTANCE, THAT THE ONE LARGE REMAINING CONTRACT FOR TNOAL SWITCHES WOULD MORE THAN LIKELY BE PROVIDED BY A US CONTRACTOR WITH TECHNOLOGY WHICH WOULD PERMIT LITTLE SHARING AMONG THE EUROPEANS. HE SUGGESTED THAT PRODUCTION SHARING WOULD HAVE A DEFINITE IMPACT ON THE THREE CONTRACTS IN THAT NO SHARING WOULD LIKELY BE POSSIBLE FOR THE IVSN WHICH MOST LIKELY WOULD BE AN OFF-THE-SHELF MILITARY EQUIPMENT. A SHARING

OF LESS THAN 35 PERCENT MIGHT BE POSSIBLE ON THE TARE CONTRACT
AND AS MUCH AS 50 PERCENT MIGHT BE APPLIED TO THE SGT CONTRACT.

7. RUMSFELD INDICATED HIS PREFERENCE FOR THE EARLIER DE STAERCKE
SUGGESTION WHICH WOULD ALLOW THE TARE CONTRACT TO GO FORWARD
WITHOUT PRODUCTION SHARING WHILE STUDIES WOULD BE MADE AS TO
THE NECESSITY FOR PRODUCTION SHARING IN LATER CONTRACTS.
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HE ALSO NOTED BUCH'S INDICATION THAT WHEREVER POSSIBLE, ICB
SHOULD BE RESORTED TO SINCE IT PROVIDED THE BEST AND CHEAPEST
SOLUTION.

I. LOGAN (UK, DCM) BELIEVED THAT THE STUDY SHOULD BE MADE
BEFORE GOING AHEAD ON TARES AND MENGIES (CANADA) INDICATED THAT
HE COULD NOT AGREE TO CALLING FOR BIDS WITHOUT MANDATORY PRODUCTION
SHARING BEFORE THE RESULTS OF THE STUDY WERE KNOWN.

8. SYGEN ASKED THAT NICSMA AND PARTIES REPORTING THE TWO
SIDES OF THE DISCUSSION GET TOGETHER ON A STUDY TO BE PRESENTED
TO AN EXTRAORDINARY DPC MEETING ON SATURDAY, 20 JUL. BUCHS
AGREED THAT SUCH A STUDY COULD BE CIRCULATED ON 19 JUL. MISSION
INTENDS TO CONTINUE POSITION FAVORING ICB UNTIL A TREND TOWARD
IMBALANCE IS DEMONSTRATED WE BELIEVE THAT MUCH WILL BE KNOWN
ABOUT THE OUTCOME OF BOTH THE TARE AND IVSN CONTRACTS BEFORE
THE BIDDING DOCUMENTS FOR THE SFT ARE RELEASED. (BUCHS HAD STATED
THAT PROJECTS WERE INTENDED TO BE RELEASED AT THREE MONTH
INTERVALS.) IT SHOULD THEREFORE BE POSSIBLE TO INCLUDE A MANDATORY

PRODUCTION SHARING CLAUSE IN THE SGT CONTRACT IF AN IMBALANCE IS INDEED

TENDING TO DEVELOP. IN ADDITION, EUROPEANS HAVE ALREADY
MANUFACTURED NATO SGTS AND A SHARING CLAUSE WOULD PRESUMABLY
NOT CREATE GREAT DIFFICULTIES.

9. IN THE MATTER OF TURKISH/GREEK DISAGREEMENT WITH SHAPE'S
IMPLEMENTATION SCHEDULE FOR TARES, TULAMEN (DCM, TURKEY) HAD
INDICATED UNDER ITEM I ON THE AGENDA THAT TURKEY HAD TECHNICAL
REASONS FOR PREFERRING ANKARA TO IZMIR FOR INSTALLATION OF
FIRST TURKISH TARE. IT WAS CENTER OF POPULATION TO BE SERVED,
HAD GOOD COMMUNICATIONS TO IZMIR AND PRESENTED MINIMUM FINANCIAL
PROBLEMS. MOLYVIATIS, (DCM, GREECE) INDICATED THAT GREECE
COULD NOT ACCEPT BEING LEFT OUT OF THE FIRST INCREMENT OF TARE
IMPLEMENTATION. NICSMA D/12 OF 1973 HAD CALLED FOR CHOICE
OF INSTALLATION PRIORITIES TO BE A FUNCTION OF THENATIONAL CIVIL
AUTHORITIES AS WELL AS NATO MILITARY AUTHORITIES. HE BELIEVED
IT WAS NOT POSSIBLE TO IGNORE THE GREEK MOD AND FOREIGN OFFICE
IN MAKING THE CHOICE OF PRIORITIES AND SUGGESTED THE PROCUREMENT
OF A 13TH TARE ALONG WITH THE 12 OTHERS IN THE FIRST INCREMENT.
ADMIRAL MINTER, DEPUTY CHAIRMAN, MC, NOTED THAT THE PRIORITIES
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HAD BEEN ESTABLISHED BY SHAPE. A MEETING HAD BEEN HELD WITH THE TURKISH AND GREEK AUTHORITIES BUT SHAPE HAD RECENTLY CONFIRMED THEIR ORIGINAL PRIORITIES. MINTER HAD NO AUTHORITY TO CHANGE THOSE PRIORITIES.

10. LUNS STATED THAT DPC COULD NOT RESOLVE THE PROBLEM WITHOUT KNOWING THE ELEMENTS OF IT. HE SUGGESTED THAT THE INTERESTED PARTIES SHOULD MEET WITH THE CHAIRMAN OF THE NJCEC AND PROVIDE A PAPER WITH RECOMMENDATIONS FOR ACTION BY THE DPC. RUMSFELD NOTED THAT THERE WAS NOT POINT IN RESOLVING THE PRODUCTION SHARING QUESTION QUICKLY UNLESS THE SEQUENCE OF IMPLEMENTATION QUESTION COULD BE RESOLVED AT THE SAME TIME. LUNS AGREED THAT THE PAPER

SHOULD BE PUBLISHED BY FRIDAY AND BE CONSIDERED DURING THE SATURDAY DPC MEETING. RUMSFELD

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